

DOCUMENT RESUME

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[Actions Taken by Bank Regulatory Agencies To Improve Their Financial Disclosure Systems]. FPCD-78-54; B-118535. July 14, 1978. Released July 17, 1978. 5 pp.

Report to Rep. Benjamin S. Rosenthal, Chairman, House Committee on Government Operations: Commerce, Consumer and Monetary Affairs Subcommittee; by Elmer B. Staats, Comptroller General.

Issue Area: Federal Personnel Management and Compensation:
Financial Disclosure and Resolving Conflicts of Interest
(316); Personnel Management and Compensation (300); Personnel
Management and Compensation: Compensation (305).

Contact: Federal Personnel and Compensation Div.

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Management (803).

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Reserve System: Board of Governors.

Congressional Relevance: House Committee on Government
Operations: Commerce, Consumer and Monetary Affairs
Subcommittee; House Committee on Banking, Finance and Urban
Affairs; Senate Committee on Banking, Housing and Urban
Affairs. Rep. Benjamin S. Rosenthal.

The Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation (FDIC), and the Board of Governors of the Federal Reserve System have taken significant action to implement GAO recommendations for improvement of their financial disclosure systems. Investigation of the FDIC's regulations concerning outside employment practices by agency attorneys showed that although it has counseled its attorneys to refrain from practicing law on their own time, it has no regulations dealing specifically with this matter. (SC)



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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

RELEASED 7/17/78

JULY 14, 1978

RELEASED

B-118535

The Honorable Benjamin S. Rosenthal
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr Chairman:

Last year, at your request, we reviewed the financial disclosure systems of three bank regulatory agencies--the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System. In separate reports on each of these agencies, we recommended actions the agencies should take to improve their systems.

On February 24, 1978, you requested that we conduct a followup review at these agencies to determine how they have implemented our report recommendations. Our followup review disclosed that the three agencies have taken significant action to implement most of our report recommendations, as discussed below. We believe these actions will improve their financial disclosure systems.

You also asked us to examine the Corporation's regulations concerning outside employment practices by agency attorneys. We found that the Corporation does not have regulations dealing specifically with the outside employment practices of agency attorneys, but it has counseled its attorneys to refrain from practicing law on their own time.

OFFICE OF THE COMPTROLLER
OF THE CURRENCY

In our report "Financial Disclosure Systems in Banking Regulatory Agencies" (FPCD-77-29, Mar. 23, 1977), we recommended that the Office

--require more employees, including national bank examiners, to file disclosure statements;

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- develop comprehensive guidelines as to the types of prohibited interests;
- require that additional financial information be disclosed concerning employees' use of credit from banks; and
- review financial interests we questioned as having the appearance of a conflict of interest.

At the close of our initial review, the Office was taking actions to improve its system. Since then, the Treasury Department and the Civil Service Commission have approved the Office's revised procedures which require about 2,000 more employees, including national bank examiners and assistant national bank examiners, to file financial disclosure statements. The revised procedures, set forth in Administrative Circular 53 as a supplement to Treasury Department regulations, also contain a comprehensive compilation of restrictions applicable to Office employees.

In addition, the Office has obtained approval from Civil Service to revise its financial disclosure form for 1978 to require disclosure of the names of all national banks or their affiliates, officers, directors, or employees to whom an Office employee is indebted. New statement processing and review procedures have also been implemented.

Individual employee interests we questioned have been divested of or otherwise resolved. Briefing sessions on the new regulations and procedures have been scheduled for employees.

FEDERAL DEPOSIT INSURANCE CORPORATION

In our report dated June 1, 1977 (FPCD-77-49), we recommended that the Corporation improve its financial disclosure systems by

- coordinating administration of the three disclosure systems in one office;
- requiring other employees, including bank examiners (GS-11 and above), to file disclosure statements;
- developing specific regulations for restricting loans from state banks for employees in policy and decision-making positions; and

--requiring that additional information be disclosed concerning employees' use of bank credit.

In April 1978, the Corporation submitted its revised regulations governing employee responsibilities and conduct to Civil Service for approval. The proposed regulations (1) prohibit senior policymakers from obtaining certain bank credit, (2) establish guidelines concerning ownership of bank-related securities, (3) require more than 1,000 employees to file financial disclosure statements, (4) establish formal guidelines for processing disclosure statements, and (5) unite the three financial disclosure-reporting systems employed by the Corporation in one regulation.

Administration of the various financial disclosure systems will be coordinated in the office of the ethics counselor, except for the reporting of loans held by bank examiners. Reporting of loans by bank examiners will continue to be handled in the field offices because regional directors are responsible for taking action to prevent a possible conflict. A copy of the report, however, will be sent to the ethics counselor for coordination and review.

The Personnel Director will establish and maintain a listing of persons required to file statements. The Corporation has expanded the number of positions required to file to include GS-11 through GS-13 bank examiners. Each individual will be notified of the filing requirement, and appropriate forms will be sent to the employee for completion. Followup procedures will be initiated for persons who do not file as required.

Although there were no direct violations of statutory prohibitions, our report disclosed that seven officials reported financial interests which appeared questionable in light of their duties. In response to this matter, Corporation officials informed us that there were no conflicts of interest and no violation of regulations. They told us, however, that the majority of the cases cited in our report would be prohibited under the proposed regulations. Once the regulations are approved, senior policymakers will be subject to the same credit prohibitions as bank examiners, except that credit cards obtained from banks other than insured State nonmember banks would be permissible whether or not the issuing bank is affiliated with an insured State nonmember bank.

Outside employment of
Corporation attorneys

The Corporation, like most other agencies, has no regulations specifically directed to curtail outside law practices of attorneys. The Corporation counseled attorneys at one time on this matter and asked them to refrain from such practices; however, the Corporation is unsure of its authority to issue regulations to prevent attorneys from practicing law outside of the agency. Under the new regulations, all attorneys will be required to file financial disclosure statements. These statements will contain information on outside employment and will be reviewed for conflicts of interests.

FEDERAL RESERVE BOARD

Our August 12, 1977, report "Proposals Regarding The Federal Reserve Board's Financial Disclosure System" (#PCD-77-46), recommended that the Board

- develop specific criteria for identifying positions which should require the filing of financial disclosure statements;
- develop written review criteria concerning prohibited interests, and further define speculative transactions;
- require employees to disclose more data concerning financial interests; and
- develop criteria for restricting loans for employees involved in bank supervision and regulations functions whose duties involve policymaking and decisionmaking.

In May 1977, the Board amended its standards of conduct regulations to expand the number of positions for which financial disclosure statements are required. To maintain a current listing of the approximately 200 positions now required to file, the Board has established a review committee to survey Board positions annually to determine who should file. The committee will review positions that (1) have a possible exposure to outside financial influence, (2) raise the appearance of conflict of interest, or (3) have the ability to affect individual institutions. The Board's committee will meet with division directors on an annual basis to see if the duties of positions have changed, and test the changes against the criteria to determine if any changes should be made in the reporting requirements.

To enhance the effectiveness of its financial disclosure system, the Board has developed a comprehensive listing of prohibited interests which includes (1) all bank-holding companies, (2) bank and nonbank subsidiaries, and (3) all major Government security dealers. The list of prohibitions, which is updated annually, is available to employees in the Office of Personnel.

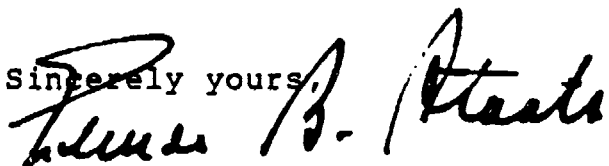
The Board has suggested a time period which would constitute frequency of trading (i.e., holding individual stocks for less than 6 months). It did not, however, further define "speculative dealings" as suggested in our report. Likewise, the Board has not revised its financial disclosure statement to require disclosure of more data needed to monitor speculative securities transactions, such as the dates of transactions. The Board is reluctant to revise its financial disclosure statement, at this time, to include additional data on employee loans, bank credit cards, and securities transactions because of financial disclosure legislation pending before the Congress.

CONCLUSIONS

We believe that the actions taken and proposed by the three bank regulatory agencies will improve their financial disclosure systems. The increased number of employees required to file financial disclosure statements, the more restrictive regulations, and the improved procedures for processing and reviewing statements, should identify and resolve conflict of interest situations in the future. However, we stand by our previous recommendation that Corporation employees in bank examiner positions (GS-11 and above) should be required to file annual financial disclosure statements.

We hope that this information satisfies your request. Copies of this report are being sent to the Senate Committee on Banking, Housing, and Urban Affairs; the Office of Management and Budget; and to the head of each of the three bank regulatory agencies.

Sincerely yours,



Comptroller General
of the United States